

Assessment Schedule – 2005**Economics: Describe and illustrate aggregate economic activity (90632)****Evidence Statement**

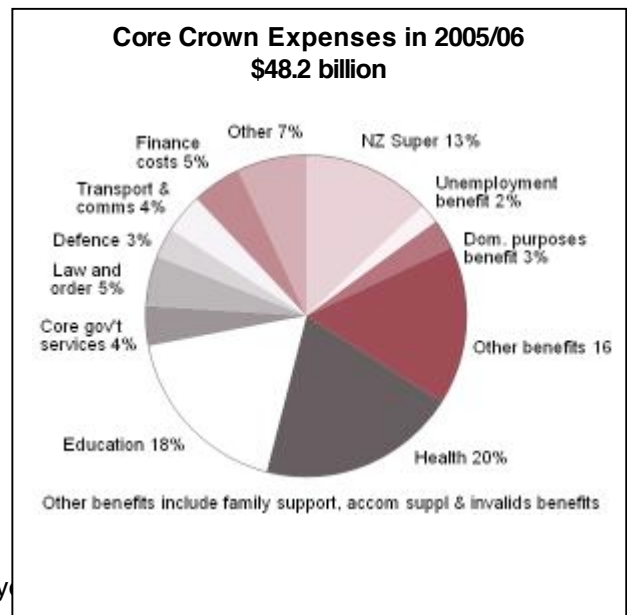
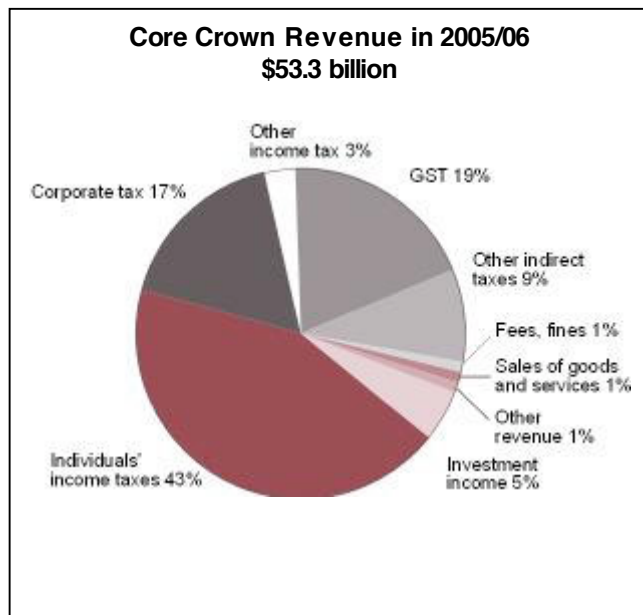
Note: Merit answers require a full explanation and generally require a 3 part answer, ie [I]dentifies the key economic idea(s) and [E]xplains the idea to answer the [Q]uestion.

Code	Q	Evidence	Achievement	Merit	Excellence
A1	ONE (a) (b)	\$123 billion Expenditure	BOTH correct.		
A1	(c) (ii) (c) (iii) (c) (iv) (c) (v)	I Y IT X	Any THREE correct.		
A1	TWO (a)	The rate of economic growth has increased from just under 3% in 2001, to just over 4% in 2005.	Correctly identifies trend, and refers to data in Graph 1.		
A2	(b)	Any change that would ↑ AD ie ↑C, ↑net X, ↑G, ↑I	Correctly describes a factor that would ↑ AD.		
A1	(c)	Real GDP deflates nominal GDP with a price index to remove changes caused by inflation. OR Nominal GDP is measured in current prices and Real GDP is measured in constant prices (adjusted for inflation).	Difference clearly described.		

Code	Question	Evidence	Achievement	Merit	Excellence
A3	THREE (a) (i)	As TWI increases, current a/c decreases OR ↑ TWI → ↑ current a/c DEFICIT.	Correctly identifies relationship.		
M	(a) (ii)	<p>Increase TWI means \$NZ is getting stronger / appreciating [I]. This means:</p> <p>Imports becomes cheaper (as less \$NZ are required to buy them) [E]</p> <p>so more imports are bought / import payments increase (worsening current account) [Q]</p> <p>OR</p> <p>Exports become more expensive (as more foreign dollars are required to buy them) [E], so less NZ exports sold, / export receipts decrease (worsening current account) [Q].</p> <p>OR</p> <p>Exporters paid in foreign currencies swap foreign earnings for less NZ dollars, [E]</p> <p>eg if earn \$100 US and exchange rate = .50NZ : 1US, exporter receives \$200NZ, but if dollar rises to 1NZ : 1US exporter earns \$100NZ (causing the current account to worsen) [Q].</p>		<p>Full explanation:</p> <p>has I, E and Q, ie,</p> <p>(1) \$NZ appreciating / getting stronger</p> <p>(2) decrease competitive-ness of New Zealand goods (↓ M price / ↑ X price</p> <p>(3) [inverse] change in payments / receipts or buy more M or buy less X.</p>	
A3	(b)	<p>(ii) Current a/c receipt</p> <p>(iii) Financial a/c payment</p> <p>(iv) Current a/c payment</p> <p>(v) Current a/c payment</p>	Any THREE correct.		

Code	Question	Evidence	Achievement	Merit	Excellence
A3	FOUR (a)	<p><i>Government Revenue</i> eg corporate tax, individuals' income tax, GST.</p> <p><i>Government Expenditure</i> eg health, education, New Zealand Superannuation.</p> <p>See pie graphs below for possible answers.</p>	Any THREE correct.		
A3	(b)	<p>For example:</p> <ul style="list-style-type: none"> • Reduces inflation (as withdrawals > injections so AD decreases). • Lower interest rates (as government doesn't have to borrow to fund this year's expenditure so reducing demand in borrowed funds market). <p>Not possible future uses of surplus.</p>	Correctly describes a benefit from operating surpluses.		

Pie Graphs

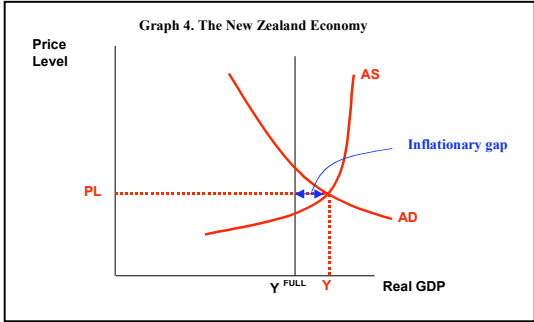


Code	Question	Evidence	Achievement	Merit	Excellence
A3	FIVE (a)	<p>No, as PTA stays above 3% on average over the medium term, and this change is only a one-off.</p> <p>OR</p> <p>Yes, if results continue so inflation is above 3% on average in medium term.</p> <p>Note: the current PTA target is a 1–3% pa <i>on average [over the medium term]</i> change in the CPI.</p>	Recognises why it does / does not break PTA target.		
A3	(b)	<p>Examples include:</p> <ol style="list-style-type: none"> 1. Note issue The RBNZ determines the amount of banknotes issued to meet the currency needs of the public. 2. Banker to banks Provides an electronic clearing and settlement service (austraclear) for interbank and bank to government transactions. 3. Banker to government In the sense that government keeps a current a/c on which it issues cheques at RBNZ. 4. Foreign reserves management Manages New Zealand's forex reserves, including the capacity to intervene in the forex market if free market stability undermined. 5. Oversight of financial system Promote and maintain a sound and efficient financial system – including registering / deregistering banks. 6. Registry for debt securities (issued by government). 7. Conducts government's borrowing within New Zealand under an agency arrangement with Treasury's debt management office. 	Identifies TWO functions other than monetary policy.		

Code	Question	Evidence	Achievement	Merit	Excellence
A3 or M	(c)	<p>Idea of:</p> <ul style="list-style-type: none"> • \uparrowOCR increases the interest rate on money deposited in settlement a/cs [I], so firms / individuals who want to borrow must pay banks a higher interest rate [Q], otherwise banks would leave it in safer higher earning settlement a/c [E]. <p>OR</p> <ul style="list-style-type: none"> • \uparrowOCR increases the cost of borrowing (overnight cash) from RBNZ [I], so banks will raise the savings interest rate [Q] to attract (cheaper) funds from bank depositors [E]. 	<p>Identifies a key idea but answer not complete or has errors.</p> <p>\uparrowOCR \rightarrow banks receive more on their settlement a/c deposits.</p> <p>OR</p> <p>\uparrowOCR \rightarrow banks have to pay more to borrow (overnight cash) from RBNZ / banks.</p>	Full explanation has I, E and Q, ie explains how settlement a/c change flows through to a bank interest rate.	
A2 or A2#	FIVE (d) (i)	<p>Graph 3. The New Zealand Economy</p>	<p>A2 if shifts AD left, labels new AD curve and correctly labels PL1 and Y1 at equilibrium of new AD and (new, if drawn) AS.</p> <p>OR</p> <p>A2# if shifts AD left AND AS right, correctly labels PL1 and Y1 at equilibrium of new AS and AD with straight lines.</p>		

Code	Question	Evidence	Achievement	Merit	Excellence
A3 or M#	(d) (ii)	<p>Aggregate Supply:</p> <p>$\uparrow r \rightarrow$ \$NZ appreciates so imported raw materials cheaper [I]. This lowers costs of production / increases profit [E] so AS shift right as (planned) output increases [Q].</p> <p>Note: cost effect of interest rate is on I decision which affects LRAS not SRAS.</p>	Identifies \uparrow r imported raw materials cheaper (key idea), but answer may include minor errors or may not be a full answer.	Full explanation, I and E (Q implied as shown on diagram) Candidate must link (1) \$NZ \uparrow / appreciation (2) to cheaper imported raw materials (3) so costs of production fall / profits increase / planned output increases.	
A3 or M#	FIVE (d) (ii)	<p>Aggregate Demand:</p> <p>Increased interest rates decrease spending and so \downarrow AD [Q], because eg:</p> <ul style="list-style-type: none"> • <u>C falls [I]</u>, as <u>households save more</u> because of the <u>higher return</u> [E]. or <u>C falls [I]</u>, because <u>cost of borrowing higher so can't afford as much</u> [E]. • <u>I falls [I]</u>, <u>borrowing cost higher</u> so the <u>profitability of future projects is reduced</u> [E]. • <u>Net exports fall</u> ($X \downarrow - M \uparrow$) [I], as <u>\$NZ appreciates</u> making <u>M cheaper</u> or <u>X more expensive</u> [E]. 	Identifies a key idea (like \downarrow C or \downarrow I) but answer may include minor errors or not be full.	Full explanation: I and E (Q implied as shown on diagram). Candidate must identify THREE underlined points in a section OR FOUR different points from two sections.	
A2#	(d) (iii)	Answer depends on the candidates' adjusted Graph 3, for example: Inflation – decrease Economic growth – decrease Unemployment – increase	THREE correct read off the candidate's own graph.		
A2 or M#	(iv)	Should discuss idea that demand for labour is derived from level of real output. Eg Real GDP \downarrow means less output produced [I] so less labour needed (ie (derived) demand for labour falls) [E] \uparrow ing unemployment or \downarrow ing the amount of employment [Q].	Recognises \downarrow real GDP means output decreased or derived demand (key idea) but answer may include minor errors or not be	Full explanation: I and E (Q implied as circled in (d) (iii), ie links less output to less resources needed / (\downarrow derived	

			full.	demand for labour) so ↑U.	
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Code	Question	Evidence	Achievement	Merit	Excellence
E	FIVE (d) (i) (d) (ii) (d) (ii) (d) (iii) (d) (iv)	A2# M# (AS) M# (AD) A2# M#			TWO A# and TWO M# grades.
A2*	FIVE (e)		Correctly draws AS and AD to show inflationary gap AND correctly labels it and PL and Y.		
A2 or M*	(f) (i)	PL increase Real GDP decrease	BOTH correct in (f) (i) AND identifies a key idea (like ↓ AS) in (f) (ii), but is incomplete or has errors.	Full explanation if has I and E in (f) (i) (Q implied if correct in (f) (i), so not marked again). THREE things required: (1) (f) (i) correct (2) ↓ AS (3) increased cost of production / decreased profit.	
	(f) (ii)	PL ↑ and ↓ real GDP [Q] because of ↓ AS [I] – due to ↑ wages <u>raising costs of production</u> / reducing firms' profitability, so they plan to produce at each price level [E].			
A3*	(g)	\$NZ 75 000 decrease.	Correct answer.		

Code	Question	Evidence	Achievement	Merit	Excellence
A2 or M*	(h) (i)	PL decrease Real GDP decrease	BOTH correct in (h) (i) AND identifies a key idea (like \downarrow AD or \downarrow I) in (h) (ii), but is incomplete or has errors.	Full explanation if has I and E in (h) (ii) (Q implied if correct in (h) (i) so not marked for again), has (h) (i) AND (1) \downarrow AD (2) business uncertain about future (NOT less confidence) so \downarrow I.	
	(h) (ii)	PL \downarrow + \downarrow real GDP [Q] because of \downarrow AD [I] as falling business confidence means <u>business are less certain about the future</u> (or future profit levels) so <u>decrease</u> (delay) <u>investment</u> spending [E].			
E	THREE (e) (f) (ii) (g) (h) (ii)	A2* M* A2* M*			All FOUR * grades.

Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
1 × A1	2 × M	1 × E
1 × A2	1 × A1	2 × M
1 × A3	1 × A2	1 × A1
5 other A or M	1 × A3	1 × A2
	6 other A or M	1 × A3
		6 other A or M